



cutting through complexity

City of Norfolk, Virginia

Presentation of Required Audit Planning Communications

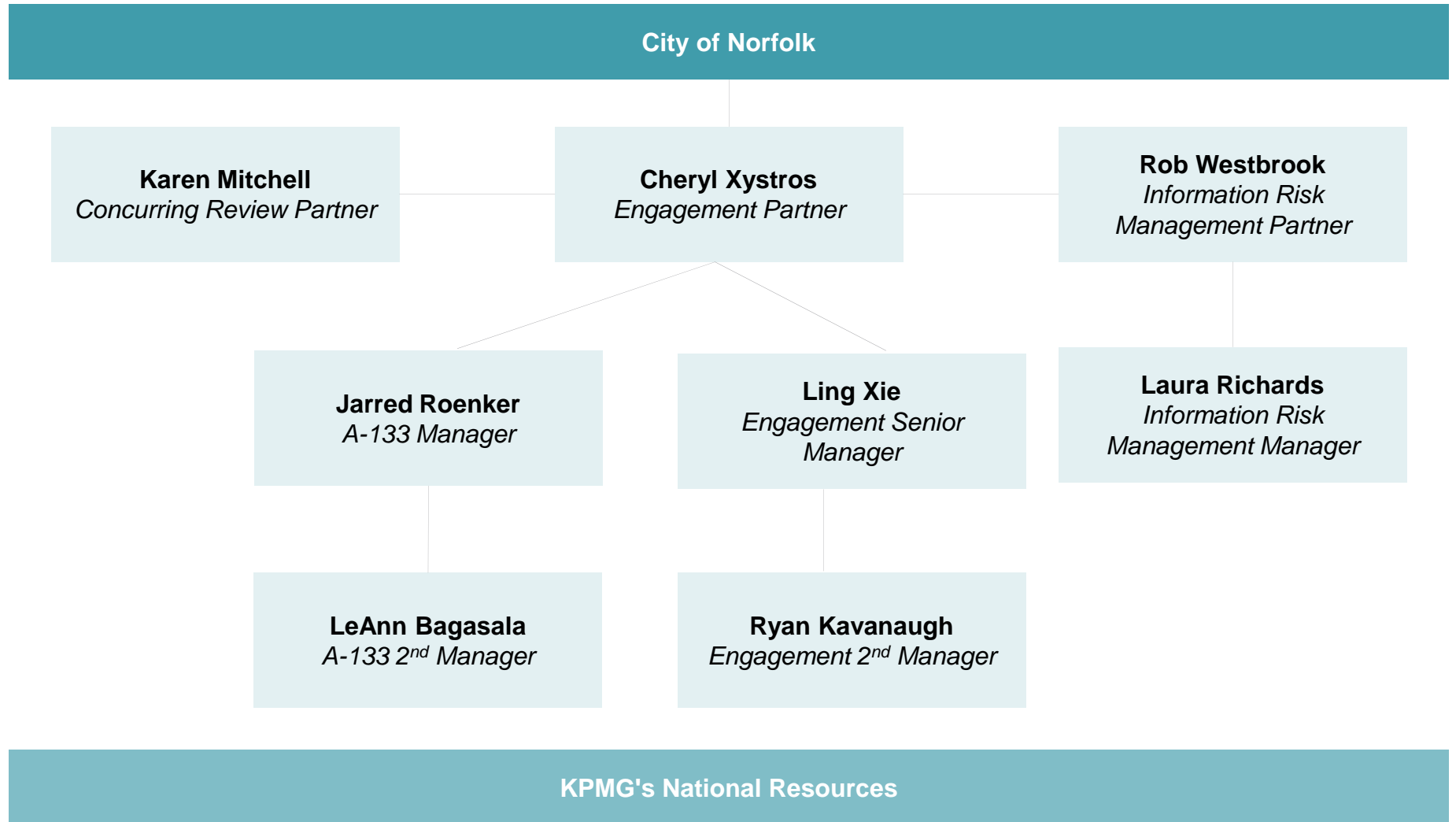
Fiscal Year 2015

July 21, 2015

Planning meeting agenda

- KPMG Client Service Team
- Summary of Professional Services
- Audit Emphasis Areas
- Fraud Risks
- New GASB standards
- OMB Circular A-133 Audit
- Audit Calendar
- Most Recent Peer Review

KPMG client service team



Summary of professional services

- Audit of the basic financial statements (CAFR) for the year ended June 30, 2015
- Audit of the City's compliance with federal grant requirements and other requirements per OMB Circular A-133
- Report of the City's compliance with State Auditor of Public Accounts' Specifications
 - Sheriff Agreed-upon Procedures (AUP) Report
 - Comparative Report Transmittal Form AUP Report
 - VRS Census examination Report
- Landfill AUP Report
- Enterprise Funds (Parking, Water, and Wastewater) audits
- Letters on internal control (based on our basic financial statement and OMB Circular A-133 audits)
- Performance improvement opportunities
- Consultation on various accounting and financial reporting matters, as requested

Areas of audit emphasis

Priority areas

Significant Accounting Estimates and Other Items:

- Implementation of GASB 68
- Valuation of other post-employment benefits and pension
- Valuation and presentation of the self insurance fund

Significant Business Risks:

- Economic conditions
- Loss or reduction of federal, state or local funding
- Compliance with federal and state regulations
- Managing fraud risks

Other significant areas

Significant Classes of Transactions:

- Budget and encumbrances
- Revenue generation and collection
- Compensation of employees
- Service delivery and procurement
- Capital assets
- Debt management
- Treasury management

Control Environment:

- General control environment “tone at the top”
- Information technology and security
- Financial reporting
- Disbursement process and payroll

Audit plan – Fraud risks

Management responsibilities related to fraud:

- Establish proper tone/culture/ethics
- Establish and maintain internal control, including controls to prevent, deter and detect fraud
- Oversight of financial reporting process
- Adopt sound accounting and financial policies
- Disclose to the Audit Committee and the auditors any significant deficiencies in internal control and fraud involving those with significant roles in internal controls

Identification of fraud risks:

- Perform risk assessment procedures to identify fraud risks, both at the financial statement level and at the assertion level
- Discuss among the engagement team the susceptibility of the entity to fraud
- Perform fraud inquiries of management, the Audit Committee and others
- Evaluate the City's broad programs/controls that prevent, deter and detect fraud

Audit plan – Fraud risks (continued)

Response to identified fraud risks:

- Evaluate design and implementation of anti-fraud controls
- Test effectiveness of anti-fraud controls
- Address revenue recognition and risk of management override of controls
- Perform specific substantive audit procedures (incorporate elements of unpredictability)
- Evaluate audit evidence
- Communicate to management and the Audit Committee

Effective dates – Issued GASB statements

June 30, 2015

- No. 68, *Accounting and Financial Reporting for Pensions*
- No. 69, *Government Combinations and Disposals of Government Operations***
- No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*

June 30, 2016

- No. 72, *Fair Value Measurement and Application*
- No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*
- No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

June 30, 2017

- No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*

June 30, 2018

- No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

****Effective as of the previous December 31**

A-133 Single audit areas

- 2015 Major Programs for the City:
 - Community Development Block Grant (CDBG)
 - HOME Administration
 - Temporary Assistance to Needy Families (TANF)
 - HIV Emergency Relief Project (Ryan White)
 - Medical Assistance Program (Medicaid)
 - Social Services Block Grant (SSBG)
- Approach is to maximize dual purpose testing (i.e., joint tests of internal control and compliance) with the financial statement audit
- Norfolk Public Schools has three major programs in addition to the above, which are Title I, Special Education, and National School Breakfast and Lunch Program
- One additional program will need to be selected once we receive June 30 results

Engagement timetable

■ Audit Calendar:

July & August 2015	—	Planning
May – October 2015	—	A-133 fieldwork
Completed by September 30, 2015	—	IT fieldwork
October – November 2015	—	Financial statement fieldwork
November 30, 2015	—	Financial statements issued
December 2015	—	City Council presentation

Engagement timetable (continued)

■ Communications timetable overview:

- KPMG will hold scheduled meetings with management during fieldwork to keep them apprised of the status of testwork and issues encountered, if any
- All communications with respect to potential management letter comments, A-133 findings and audit adjustments will be reviewed with the appropriate level of management as they arise
- KPMG will meet with management and the City Council upon completion of the audit to review the audit reports and results



System Review Report

To the Partners of KPMG LLP
And the National Peer Review Committee of the AICPA Peer Review Board

We have reviewed the system of quality control for the accounting and auditing practice of KPMG LLP (the Firm), applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended March 31, 2014. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The Firm is responsible for designing a system of quality control and complying with it to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the Firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*, audits of employee benefit plans, an audit performed under FDICIA, audits of a carrying broker-dealers, and examinations of services organizations [Service Organizations Control (SOC 1) engagements].

In our opinion, the system of quality control for the accounting and auditing practice of KPMG LLP, applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended March 31, 2014, has been suitably designed and complied with to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. KPMG LLP has received a peer review rating of *pass*.

A handwritten signature in dark ink, appearing to read "PricewaterhouseCoopers LLP".

December 5, 2014

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